

## 24 Property Management

Property management is a specialty in which real estate brokers manage homes and duplexes as well as large projects such as office and industrial complexes, shopping centers, apartment houses, and condominiums.

Reasonable knowledge and understanding of the general principles and responsibilities relating to this field is appropriate for all brokers and salespersons.

Knowledge of agency, contracts, fair housing, rentals and leases satisfies a considerable portion of property management requirements. Additional knowledge is required in business administration, marketing, purchasing, extensions of credit, accounting, advertising, insurance, repairs and maintenance, taxation and public relations. The Institute of Real Estate Management (IREM), a professional organization of persons involved in property management, is dedicated to the improvement of the operational and ethical standards of its members.

### PROFESSIONAL ORGANIZATION

In 1933, to foster professionalism and provide a source of management experience data, a group of property management firms organized the Institute of Real Estate Management (IREM). To be a member, a property management firm was required to certify that it would adhere to the following guidelines:

1. Maintain separate bank accounts for its own funds and for the funds of its clients, with no commingling;
2. Carry a satisfactory fidelity bond on all of its employees whose duties involved the handling of funds; and,
3. Refrain from taking discounts or commissions from purchases, contracts, or other expenditures of clients' funds without full disclosure to, and permission from, the property owner.

Beyond the adoption of standards of practice, IREM also set fixed principles of qualification.

In 1938, IREM's founders realized that the focus of professionalism must be on the individual because firms and corporations could not be qualified as having "ability." A firm, John Jones & Company for example, might be qualified to manage property so long as John Jones was its administrative head. But when John Jones retired, died or sold the firm, the character of its management might change completely. It was obvious only the "man" or "woman" in management could be certified to be a qualified property manager.

Having agreed upon this fundamental thesis, the members of IREM undertook to reorganize into a truly professional society, with membership restricted to individuals. Now, individuals meeting the educational and experience requirements are designated as Certified Property Managers® (CPM®). A lesser degree of training and on-site experience qualifies an individual as an Accredited Residential Manager® (ARM®). A firm that meets IREM's guidelines and utilizes at least one CPM® can be designated as an Accredited Management Organization® (AMO®).

## PROPERTY MANAGERS AND PROFESSIONAL DESIGNATIONS

There are three types of property managers: the individual property manager, the individual building manager, and the resident manager.

The individual property manager is usually a real estate broker who manages properties for various owners or an owner. The property manager may be a member of a small property management firm and devote full time to property management; or, he may own his own firm; or, he may be one of a number of property management specialists in a large real estate organization. Some property managers are asset managers and make the same types of decisions that an owner would relative to change of use, refinancing and sale. Asset managers frequently supervise other CPM<sup>®</sup>s.

The individual building manager may be employed by a property manager or directly by an owner, and usually manages a single large property.

The resident manager may be employed by a real estate broker or a managing agent or an owner to manage an apartment building on a part or full-time basis.

The training, experience and number of units managed determine the individual property or building manager's qualification for the CPM<sup>®</sup> designation. To qualify for the ARM<sup>®</sup> designation, size of the property as well as training and experience are again criteria.

## FUNCTIONS OF A PROPERTY MANAGER

The many and varied duties of a property manager require the skills of a business executive, decorator, salesperson, parking lot attendant, gardener, housekeeper, information center, accountant, banker, doctor, lawyer, social director, psychologist, marriage counselor, baby sitter, bookkeeper, rent collector, maintenance expert, security officer, keeper of the keys, telephone operator, messenger service, and complaint department. The manager must also be soft-spoken, fast-moving, poised, quick-thinking, non-tiring, ever-available, mechanical-minded, all-knowing and never-ailing. This "expert" knows how to visit without visiting, sell without selling, see without judging, hear without repeating - and all without having time for an uninterrupted meal.

The property manager has a dual responsibility: to the owner or client who is interested in the highest return from the property; and to the tenants, who are interested in the best value for their money, including reasonable safety measures and compliance with fair housing laws.

The property manager must promptly rent the property/units at the highest market rent possible, keep operational and other costs within budget, and preserve and enhance the physical value and prestige of the property.

## SPECIFIC DUTIES OF THE PROPERTY MANAGER

Here are some of the specific duties a property manager must perform:

1. Establish the rental schedule that will bring the highest yield consistent with good economics.
2. Merchandise the space and collect the rent.
3. Create and supervise maintenance schedules and repairs.
4. If applicable, insure independent contractor status.

5. Set up payroll system for all employees.
6. Develop a tenant/resident relations policy.
7. Supervise employees and develop employee policies, including an Injury Prevention Plan.
8. Maintain proper records and make regular reports to the owner.
9. Qualify and investigate a prospective tenant's credit.
10. Prepare and execute leases.
11. Obtain decorating specifications and secure estimates.
12. Hire, instruct, and maintain satisfactory personnel to staff the building(s).
13. Audit and pay bills.
14. Advertise and publicize vacancies through selected media and broker lists.
15. Recommend alterations and modernization as the market dictates.
16. Inspect vacant space frequently.
17. Keep abreast of the times and competitive market conditions.
18. Obtain and pay insurance premiums and taxes.
19. Be knowledgeable about and comply with applicable Federal, State and local laws.

## RENT SCHEDULE

In establishing the rental schedule, the property manager must make a thorough neighborhood analysis by doing a market survey of rents for comparable buildings. Rent levels, generally, are established on the basis of scarcity and comparability of values. The manager must know the building thoroughly, assess its values objectively, then survey all of the "competition" buildings in whatever limits the manager sets for the neighborhood. The manager must then analyze:

1. The character of the buildings and amenities of the neighborhood.
2. Economic level, family size, and age groups.
3. Trends in number of occupants per unit.
4. Availability of transportation, recreation, shopping, churches, and schools.
5. Physical aspects as well as lot coverage.
6. The breadth and growth of local industries.
7. Population growth trends.
8. Personal income range, financial capacity, and stability of income.
9. Growth and expansion of the community.
10. Condition of the housing market in terms of inventory on the market, sales price range, new construction, and vacancy.

After a thorough analysis, the property manager will prepare a rent schedule that will bring the maximum income obtainable, consistent with good economics.

## **MERCHANDISING THE SPACE**

All of the activities relating to property management are useless unless the property manager knows how to effectively merchandise the space available for rent. Various methods of merchandising include: business cards, newspaper ads, signs on the property, radio and television advertising, brochures and fliers, billboard advertising, business contacts, and tenant referrals.

When a prospective qualified tenant responds to advertising, the property manager must make every effort to secure the tenant for the vacant property, as advertising can be very expensive. A sound property maintenance program is very important. Rental properties showing the wear and tear of the previous occupants will discourage a prospective tenant.

## **MAINTENANCE AND PURCHASING OPERATIONS**

The property manager must establish and maintain sound policies for the maintenance of the building and purchasing of supplies and services. However, if all of the building's income is used for expenditures, leaving the owner no profit, the dissatisfied owner will seek the services of another property manager.

It is the responsibility of the property manager to routinely inspect the building and know its current, as well as deferred maintenance needs. The property manager should have access to skilled specialists for repair and maintenance work, unless the resident manager is personally skilled to perform necessary repairs. In either case, the property manager must correct the building's repair/maintenance problems as soon as they are discovered. It is less expensive to make repairs immediately than to delay action and allow the problem to worsen. Ongoing preventive maintenance to reduce the need for large maintenance expenditures should be the goal of all property managers. This approach makes good sense and, ultimately, provides more profit for the owner.

The property manager must also supervise all purchasing operations, with the emphasis on obtaining the best value possible for the owner's money.

## **TENANT RELATIONSHIPS**

Tenants want to get the most they can for their rental dollar and feel safe in their surroundings. The property manager must set policies which will give tenants the most benefits commensurate with a proper return to the owner. Effort expended for tenant retention will result in more satisfied residents and increased profits for the owner. Here, the manager has to use experience and courtesy as well as psychology.

## **MANAGER AS EMPLOYER**

The property manager employs almost all the people working on the premises and provides for their instruction and supervision. The manager must know the "what, how and when" of each employee's job.

The success or failure of the management operation often depends on the property manager's ability to choose, train, direct and retain personnel. An effective staff will keep vacancies and maintenance costs at a minimum, thus contributing to the project's profitability.

## VACANCIES

There are many reasons why a rental space might be unintentionally vacant: improper rent required; space not ready to rent; resident manager not “selling” effectively; an inattentive manager; poor resident retention program; unappealing facade or public areas; no traffic or lookers; and high vacancy factor in area.

Successful managers are continually alert to these factors and make appropriate adjustments in marketing strategies and personnel where indicated.

## REPORTS TO OWNER

The property manager must set up and maintain proper records, making regular reports to the owner that are easily understandable and that cover all operations. It is also recommended that the property manager provide not only a monthly accounting to the property owner, but also a detailed annual statement. By means of such annual statements, the property manager can assess the fluctuations of income and expense and formulate future rental, maintenance and employee policies.

## EARNINGS

Management fees can be either a flat amount per month, a percentage of the gross rents collected, or a combination of the two. Property managers usually base their fees on a percentage of the gross rents collected. This may vary from 3 percent on large structures to as high as 20 percent on individual houses or small buildings. In some resort areas with high turnover rates and short terms of occupancy, as much as 50 percent of the gross rent is charged as a fee for renting a property. In addition to the fees collected on rentals, the property manager frequently receives additional compensation for the renewal of leases and for supervising major repairs or alterations.

Salaries for supervisors in a management company, resident managers, and office building managers depend largely upon local conditions and vary with geographical areas of the country, size of the city, and the size of the building. Additionally, care must be taken to comply with the minimum wage law.

## Management Contract

It is good business practice for a property manager to have a written contract with the property owner which clearly sets forth the responsibilities of both parties. This should include the terms and period of the contract, the policies pertaining to the management of the premises, management fees, and the authority and powers that are given by the owner to the agent. Standard management agreement forms are available covering the management of rental properties. Building managers should have a special agency contract drawn up by a qualified legal adviser.

As an agent, the property manager is subject to all of the legal restrictions generally imposed upon an agent, as well as those specifically included in the contract. Such obligations include good faith and loyalty to the principal, performance of all duties with skill, care and due diligence, full disclosure of all pertinent facts, avoidance of commingling of funds, and refraining from personal profits without the principal's full knowledge and consent. The agent must be familiar with the laws concerning real estate licensing, contracts, agency, fair housing, employment, property protection, and tenant/landlord relationships.

The preparation of leases, tax reports and other matters may involve legal and accounting services beyond the province of the property manager. In such cases, professional counsel should be obtained. On the other hand, it is the property manager who normally engages maintenance workers, contractors, subcontractors, and others. The property manager must get the full name, address, and proper tax identification numbers from all such individuals. When and if their annual compensation meets or exceeds the taxable amount, the proper IRS 1099 form must be sent to these individuals and to the appropriate governmental agencies.

## **ACCOUNTING RECORDS FOR PROPERTY MANAGEMENT**

A property manager must have knowledge of accounting procedures and cost accounting. The broker will need to maintain complex trust account records and make regular reports to the owner.

The maintenance of an adequate trust fund accounting system is necessary due to the fiduciary relationship between the real estate broker and the property owner. An accurate record must be kept of all trust funds passing through the broker's hands. The property manager must comply with the laws and regulations concerning trust accounts and records. This subject is discussed in Chapter 23.

Volume of business will determine the number of bookkeeping records needed. The small office requires simple records. The larger operation with office assistants and added sales personnel will almost certainly require more elaborate record keeping methods.

The responsibility for trust fund records is placed on the property management broker. An outside accountant should be retained periodically for review of the accounting system.

Firms doing a large volume of business and having a sales force may wish to consider the possibility of bonding the unlicensed office assistants so that they can legally handle clients' funds. Corporations and many limited partnerships may impose this bonding requirement and require individual bonding rather than a "blanket bond." The accountant may be able to consider various aspects of the accounting system and to devise methods to assist the broker in keeping control of the trust funds.